Briefing Book

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How did the TCJA change taxes of families with children?

HOW DID THE TCJA CHANGE TAXES OF FAMILIES WITH CHILDREN?

Standard Deduction and Personal Exemption

Both personal exemptions (which were eliminated by the TCJA) and the standard deduction serve a similar purpose: they exempt a certain portion of income from taxation. As a result, very low-income tax filers pay little to no federal income tax, while others' taxable income and taxes are reduced.

The TCJA approximately doubled the standard deduction from $9,350 for heads of household and $12,700 for married couples to $18,000 and $24,000, respectively, in 2018. As under prior law, the deduction amounts are indexed for inflation. At the same time, it eliminated personal exemptions—in 2017, prior to the TCJA, filers could claim an exemption of $4,050 for themselves and each of their dependents.

Thus, more income will be considered taxable under the TCJA than under prior law for almost all families with children. Doubling the standard deduction also decreased the benefit from claiming itemized deductions, which high-income families are more likely to do. Both provisions will revert to prior law in 2025.

Increasing the Child Tax Credit

The TCJA temporarily doubled the maximum child tax credit (CTC) from $1,000 to $2,000 per child under 17 and added a $500 nonrefundable credit for children ineligible for the $2,000 credit. The credit decreases by 5 percent of adjusted gross income over $200,000 for single parents and $400,000 for married parents. Under prior law, the credit began to phase out (at the same 5 percent rate) at income over $75,000 for single parents and $110,000 for married parents.

If the credit exceeds taxes owed, taxpayers can receive up to $1,400 of the balance as a refund: this is known as the additional child tax credit (ACTC) or refundable CTC. The refundable CTC is limited to 15 percent of earnings above $2,500. Under prior law, filers could receive the full amount of the credit (then $1,000) in excess of taxes owed, but limited to 15 percent of earnings over $3,000.

The TCJA made no changes to the child and dependent care credit (CDCTC.) It changed the measure of inflation used to index tax parameters, including parameters of the earned income tax credit (EITC) so that the EITC is now projected to increase more slowly over time. This change does not expire.

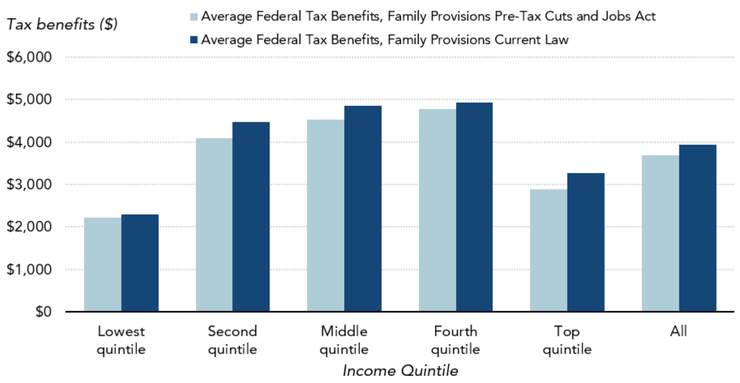
Overall Effects of TCJA for Families

Overall, most families' tax benefits increased modestly as a result of the TCJA (figure 1). Any decreases in benefits from the elimination of personal exemptions were roughly offset by the combination of increases in the standard deduction and child tax credit.

FIGURE 1

Average Tax Benefits, Family Provisions

Pre-Tax Cuts and Jobs Act compared to current law, 2018, by income quintile



Source: Urban-Brookings Tax Policy Center Microsimulation Model (version 0718-1).
Note: Includes only tax units with children, defined as those claiming an exemption for children at home or away from home or with children qualifying for the Child Tax Credit or EITC. Tax benefit is the difference in tax owed under the law and if the child tax credit, personal exemption, standard deduction, and child and dependent care tax credit are set to $0.

What Comes Next?

With most of these changes expiring in 2025, lawmakers have introduced various proposals to maintain benefits over the longer term, expand the reach of these tax provisions, or both. The federal income tax system already provides substantial benefits to low- and middle-income families with children, lifting more children out of poverty than any other program. However, the American Family Act and Working Families Tax Relief Act both propose lifting limitations on the refundable portion of the CTC.

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FURTHER READING

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Income tax (individual)

What are marriage penalties and bonuses?